

Message Text

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AMEMBASSY KUWAIT

C O N F I D E N T I A L CAIRO 10657

EXDIS

E.O. 11652: GDS

TAGS: EAID, EFIN, EG

SUBJ: MINFIN ABU ISMAIL COMMENTS RE STATUS ARAB FUND TALKS

1. SUMMARY: IN CALL TODAY ON MINFIN ABU ISMAIL, AT HIS REQUEST, HE GAVE HIS VERSION OF SOMEWHAT SLUGGISH PROGRESS BEING MADE TOWARD ESTABLISHMENT OF ARAB FUND FOR EGYPT AND ASKED FOR USG ASSISTANCE IN URGING SAUDI ARABIA AND KUWAIT, IN PARTICULAR, TO MOVE AHEAD MORE EXPEDITIOUSLY SO THAT FUND MAY BEGIN TO OPERATE. REVISED VERSION OF GOE/FUND AGREEMENT, WITH CHANGES MADE BY EGYPTIAN CABINET, BEING SENT TO ARAB FINANCE MINISTERS IN PREAPARTION MEETING THEY ARE SCHEDULED HAVE IN CAIRO, AUGUST 18, HOPEFULLY TO FINALIZE ARRANGEMENTS FOR FUND. ABU ISMAIL ALSO STATED HE NEEDS \$1,200 MILLION BETWEEN NOW AND END 1976 TO MEET OBLIGATIONS AND HAS FORMALLY REQUESTED ARAB FUND ALLOW HIM DRAW \$800 MILLION FROM TOTAL CAPITALIZATION IN 76 AND BORROW AND ADDITIONAL \$400 MILLION AGAINST FUND GUARANTEE FOR THIS YEAR. THIS IS CONSISTENT WITH HIS EARLIER HOPE OF BEING ABLE TO OBTAIN GREATER FUND DISBURSEMENTS IN 76 AND 77 THAN IN LAST THREE YEARS OF THE CONTEMPLATED FIVE YEAR PERIOD. THIS SUBJECT, TOO, IS TO COME UP FOR DISCUSSION AT AUGUST 18 MEETING. ANYTHING WE MIGHT BE ABLE OR WILLING TO DO TO URGE ARAB
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STATES TO MORE MORE QUICKLY AND LESS LEGALISTICALLY

WOULD BE USEFUL. END SUMMARY

2. NO SOONER HAD I RETURNED TO CAIRO WHEN MINFIN ABU ISMAIL TELEPHONED TO ASK THAT I COME TO SEE HIM. HIS PURPOSE WAS TO ASK FOR OUR HELP IN URGING PARTICIPANTS IN ARAB FUND FOR EGYPT TO MORE MORE EXPEDITIOUSLY IN ORGANIZING FUND AND IMPLEMENTING ITS OPERATIONS.

3. ABU ISMAIL CLAIMED THAT, WHEN FINMINS MET IN CAIRO IN MID-JULY, HE HAD SOUGHT TO IMPRESS UPON THEM NEED TO MOVE FAST. HE HAD REITERATED GOE NEEDS \$12 BILLION FOR NEXT FIVE YEARS AND THAT CONTEMPLATED \$2 BILLION FUND CAPITALIZATION INSUFFICIENT. KUWAITI FINMIN ATIQUI HAD ARGUED THAT, SINCE THERE IS AS YET NO FIVE YEAR PLAN, IT WAS DIFFICULT FOR FUND TO OPERATE. ABU ISMAIL SAYS HE RESPONDED BY POINTING OUT GOE IS OPERATING UNDER A 1976 PLAN. ARAB FINMINS HAD ALSO WANTED TO PLACE GREATEST STRESS ON PROJECT FINANCING. ABU ISMAIL HAD POINTED OUT THAT EGYPT'S PROJECT FINANCING REQUIREMENTS FOR 1976 HAVE BEEN ENTIRELY MET BY U.S. ASSISTANCE AND THAT OF SEVERAL OTHER COUNTRIES AND FUNDS. GOE'S IMMEDIATE REQUIREMENTS IS FOR BALANCE OF PAYMENT ASSISTANCE AND IT WAS IN THIS AREA THAT FUND SHOULD OPERATE. ARAB FINMINS HAD ALSO INSISTED ON AGREEMENT BETWEEN GOE AND THE FUND SPELLING OUT LATTER'S OPERATIONS AND THE PRIVILEGES AND IMMUNITIES OF ITS EMPLOYEES. HE, ABU ISMAIL, HAD HELPED DRAFT SUCH A DOCUMENT.

4. AS A PRO FORM MATTER, HE HAD SUBMITTED THE DOCUMENT TO GOE CABINET, WHICH CONSIDERED IT LAST WEEK. A NUMBER OF WHAT ABU ISMAIL CALLED "MINOR CHANGES" HAD BEEN MADE BY THE CABINET.

(A) SPECIFICALLY, A PROVISION IN THE ORIGINAL AGREEMENT INDICATING THAT FUND MUST TAKE PART IN ALL ASPECTS OF PROJECT FORMULATION AND APPRAISAL HAD BEEN DELETED BY CABINET. IN ITS PLACE A PROVISION HAD BEEN ADDED INDICATING GOE IS READY TO COOPERATE WITH THE FUND IN THE IMPLEMENTATION OF ANY PROJECT.

(B) SECOND, THE CABINET HAD INSERTED A PROVISION
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THAT NOTHING IN THE STATUES OF THE FUND SHALL PREVENT GOE FROM NEGOTIATING BILATERAL ARRANGEMENTS WITH OTHER ARAB STATES.

(C) THIRD, THE CABINET HAD INSERTED A PROVISION TO CLARIFY THAT THE FUND SHOULD BE ABLE TO USE NOT ONLY ITS CAPITAL RESOURCES, BUT ALSO BORROWING AGAINST FUND GUARANTEES. THIS WOULD INCREASE THE OVER-ALL ASSETS AVAILABLE TO GOE. THE ORIGINAL LANGUAGE ON THIS SUBJECT

HAD BEEN VAGUE.

5. ABU ISMAIL RELATED THAT THE REVISED DOCUMENT WILL BE DELIVERED TO THE FINMINS OF THE WEALTHY ARAB STATES ON WEDNESDAY, AUGUST 11. THE ARAB FINMINS ARE SCHEDULED TO MEET AGAIN IN CAIRO ON AUGUST 18 TO DISCUSS THE AGREEMENT. ABU ISMAIL ASKED THAT, BETWEEN NOW AND AUGUST 18, WE SEEK TO IMPRESS UPON THE SAUDIS AND KUWAITIS, IN PARTICULAR, THE IMPORTANCE OF MOVING FAST ON GETTING THE FUND ORGANIZED AND IN OPERATION IF EGYPT IS TO BE HELPED. FAILURE TO DO SO CAN ONLY COMPOUND GOE'S PROBLEMS. HE ALSO ASKED THAT WE URGE SAUDI AND KUWAITI FINMINS NOT TO QUIBBLE TOO MUCH OVER LANGUAGE, SINCE THE IMPORTANT THING IS THAT GOE IS PREPARED TO WORK WITH THE FUND ON PROJECT IMPLEMENTATION. IT WOULD BE HELPFUL, FOR EXAMPLE, IF WE COULD POINT OUT THAT USG DOES NOT INSIST ON TOTAL US PARTICIPATION IN PROJECT FORMULATION IN ADMINISTERING OUR AID PROGRAM, BUT INSTEAD HAVE REGULARLY BEEN ABLE TO NEGOTIATE SATISFACTORY ARRANGEMENTS WITH THE EGYPTIANS ON PROJECTS AND PROGRAMS.

6. ABU ISMAIL INDICATED THAT BETWEEN NOW AND THE END OF THE CALENDAR YEAR, GOE NEEDS LE 500 MILLION, OR ABOUT US\$1.2 BILLION, TO MEET ITS ESSENTIAL REQUIREMENTS. HE HAD NOW FORMALLY PROPOSED TO THE ARAB FUND PARTICIPANTS THAT THEY ALLOW HIM TO DRAW US\$800 MILLION FROM THE TOTAL FUND CAPITALIZATION IN 1967 AND TO BORROW THE REMAINING US\$400 MILLION AGAINST THE FUND GUARANTEE. HE HAS POINTED OUT THAT GOE'S CURRENT ACCOUNT EXPENSES WILL BE GREATER IN 76 AND 77 THAN IN THE LAST THREE YEARS OF THE CONTEMPORATED FIVE YEAR PERIOD; HENCE THE FUND SHOULD ALLOW FOR A GREATER DISBURSEMENT DURING THE YEARS WHEN GREATER AMOUNTS ARE NEEDED. THE SUBJECT, HE SAYS, IS TO COME
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UP FOR DISCUSSION AT THE AUGUST 18 MEETING.

7. COMMENT: ABOVE IS EGYPTIAN VERSION OF STATE OF PLAY AND SAUDIS, KUWAITIS, ETC., DOUBTLESS ALSO HAVE THEIR OWN. HOWEVER, FACT REMAINS THAT (A) GOE'S FINANCIAL PROBLEM IS GETTING INCREASINGLY DIFFICULT, (B) FUND ORGANIZERS HAVE APPROACHED MATTER RATHER LEISURELY AND WITHOUT MUCH APPRECIATION FOR SENSE OF URGENCY. ANYTHING WE MIGHT BE WILLING AND ABLE TO DO TO URGE WEALTHY ARAB STATES TO MOVE MORE QUICKLY AND PERHAPS LESS LEGALISTICALLY WOULD BE USEFUL.
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